

# **City of Copperas Cove City Council Agenda Item Report**

**AUGUST 24, 2016**

## **Agenda Item**

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**SUBJECT:       The History of the Hills of Cove Golf Course Deficit**

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### **1.       BACKGROUND/HISTORY**

The Golf course revenues and expenditures are recorded through an enterprise fund. Establishing a function as an enterprise fund indicates an expectation that the function is expected generate a profit or at a minimum break even at each year end. However, the City of Copperas Cove's municipal golf course has struggled to generate a profit or break even.

The City of Copperas Cove's municipal course operating in a deficit is not unique. Municipal golf courses across the United States are experiencing a deficit. The article published by American City & County on April 12, 2016, goes into detail of how many municipal Golf courses are struggling to generate revenue.

Each year, City Administration presents an operating budget to the City Council that includes the golf course enterprise fund. The deficit of the golf course is paid by the General Fund.

On June 16, 2014, the Council directed to City staff to prepare a Request for Proposals to determine if the outsourcing of the course maintenance function would be financially advantageous to the City. Thus, staff issued RFP 2014-20-74. The City received one proposal from The Salado Green Solutions, LLC, with a proposed cost of the annual maintenance of \$485,000 to cover the period from December 1, 2014 through November 30, 2015. The agenda item was presented to Council on November 11, 2014. As part of the agenda item, staff provided comparative data included in the golf course maintenance operating budget. The comparative data highlighted for the Council that continuing the maintenance of the course internally at \$316,000 was a better option. Thus, the Council rejected the proposal and directed City staff to continue with the maintenance and operations of the Golf Course.

### **2.       FINDINGS/CURRENT ACTIVITY**

Below are the revenues and expenses for the past thirteen (13) fiscal years. Data from the time the fund was established is not available prior to FY 2003 due to the fact that the City changed accounting systems from USTI to Incode Tyler Technology. The data clearly indicates that from FY 2003 to FY 2015, three fiscal years experienced a profit. Unfortunately, the other years shows a deficit. As explained during the budget workshops the General Fund is the chief operating fund for the City, thus it provides the funds that cover the deficit for any fund that is not able to cover its expenses.

The deficit situation is not projected to change in the future and the negative cash flows is a reality for the Golf Course Fund. It is disclosed every month on the Unaudited Financial Report provided to Council as an information item. It is also located on the City's website for all citizens that wish to review the report. During the financial audit of the City's records; the auditors post a reclass adjusting entry to the records in order to avoid reporting negative cash on the face of the Statement of Net Position. This is done for reporting purposes only, the negative cash is reclassified from an asset to a liability. The entry is only posted by the auditors. Please see FY 2015 CAFR page 21, it is noted that the cash balance for the Golf Course Fund is zero. In addition, see the liability section and it is noted \$1,323,552 due to other funds.

<b>FISCAL YEAR</b>	<b>REVENUE</b>	<b>EXPENSES</b>	<b>PROFIT/(LOSS)</b>
2003	\$622,452	(\$610,346)	\$12,106
2004	\$650,939	(\$640,357)	\$10,582
2005	\$772,662	(\$795,454)	(\$22,792)
2006	\$809,836	(\$806,515)	\$3,321
2007	\$688,791	(\$769,993)	(\$81,202)
2008	\$737,297	(\$749,270)	(\$11,973)
2009	\$530,907	(\$703,403)	(\$172,496)
2010	\$439,809	(\$538,701)	(\$98,892)
2011	\$385,797	(\$626,751)	(\$240,954)
2012	\$421,913	(\$616,889)	(\$194,976)
2013	\$370,928	(\$557,754)	(\$186,826)
2014	\$347,435	(\$491,583)	(\$144,148)
2015	\$323,330	(\$487,601)	(\$164,271)
<b>Total</b>	<b>\$7,102,096</b>	<b>(\$8,394,617)</b>	<b>(\$1,292,521)</b>

### **3. FINANCIAL IMPACT**

The deficit of the Golf Course Fund will continue to be absorbed by the General Fund as long as the City's General Fund is financially capable. City staff continues to monitor all expenses for this fund very closely and allows only the necessary items to be included in the annual budget for this fund. All expenses are reviewed by the executive staff on a monthly basis. In addition, all operating expenses are reviewed by the Budget Committee during the initial budget

process and then reviewed six months later and all balances are adjusted accordingly. City staff proposed additional fees for the fund in order to lessen the burden of the General Fund and avoid raising the property tax rate to cover the golf course deficit.

As of the date of this writing, the Golf Course Fund Year-to-date expenses exceeded year-to-date revenues by \$243,558. The Fund has collected 64% of the total revenues budgeted for the fiscal year. That is to include 17.3% of the membership revenue budgeted for FY 2016. During the months of August and September, the golf course collects the majority of the membership revenue included in the annual budget, approximately \$46,000.